

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>KALAMAZOO COUNTY ROAD COMMISSION</b>	County <b>KALAMAZOO</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>3/3/06</b>	Date Accountant Report Submitted to State: <b>4/6/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED  
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

APR 06 2006

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the comments and recommendations.

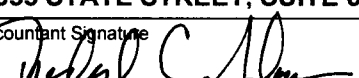
LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>GARDNER, PROVENZANO, SCHAUMAN &amp; THOMAS, P.C.</b>			
Street Address <b>4855 STATE STREET, SUITE 6</b>	City <b>SAGINAW</b>	State <b>MI</b>	ZIP <b>48603</b>
Accountant Signature 		Date <b>4/6/06</b>	

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# Gardner | Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

## INDEPENDENT AUDITOR'S REPORT

March 3, 2006

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
Kalamazoo, Michigan

We have audited the accompanying financial statements of the Kalamazoo County Road Commission, a component unit of Kalamazoo County, as of and for the year ended December 31, 2005, as listed in the table of contents. These financial statements are the responsibility of the Kalamazoo County Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kalamazoo County Road Commission as of December 31, 2005 and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
Page Two

The management's discussion and analysis and budgetary comparison information are not a required part of the financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The additional supplemental information is presented for purposes of additional analysis and is not a required part of financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements of Kalamazoo County Road Commission and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated March 3, 2006, on our consideration of the Kalamazoo County Road Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

*Sardun, Primavera, Schauman & Thomas*  
Certified Public Accountants

# **KALAMAZOO COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION & ANALYSIS**

## **Introduction**

The Kalamazoo County Road Commission (KCRC) is a special purpose government engaged in a single government program of road and bridge maintenance, preservation and construction for the County of Kalamazoo, Michigan. The Kalamazoo County Road Commission was established by a vote of the citizens of Kalamazoo County in 1909.

The following financial statements are presented in accordance with prescribed methods of accounting. The financial statements related to the Governmental Fund are prepared in modified accrual format, commonly referred to as governmental fund level accounting. The full accrual method of accounting focuses on the entity as a whole (KCRC net assets) and is referred to as government-wide level accounting. The significant differences between the governmental fund statements and the government-wide statements relate to capital assets (buildings and equipment) and the infrastructure (roads, bridges and signals). Capital assets and infrastructure are not recognized as assets and capitalized at the governmental fund level.

With respect to the statements on financial position and activities, the fund level financial statements and the government-wide financial statements have been combined and are presented on the same page.

The audited financial activities of the KCRC are presented herein. These statements include the following:

- Statement of Net Assets and Governmental Fund Balance Sheet,
- Reconciliation of Governmental Fund Balance to Net Assets of Governmental Activities,
- Statement of Activities and Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund balance, and
- Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Fund to the Statement of Activities for the Year Ended December 31, 2005.

## **Condensed Financial Statements**

Following are condensed government-wide financial statements for the KCRC. The reports include the current and prior year balances for comparison.

# KALAMAZOO COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION & ANALYSIS

## Condensed Statement of Net Assets

	<u>2005</u>	<u>2004</u>
<b>Assets</b>		
General fund	\$ 6,562,799	\$ 5,543,921
Capital assets	102,739,810	101,669,198
Total Assets	<u>\$ 109,302,609</u>	<u>\$ 107,213,119</u>
<b>Liabilities</b>		
General fund liabilities	\$ 997,460	\$ 834,266
Liabilities associated with long-term debt	151,112	290,600
Total Liabilities	<u>\$ 1,148,572</u>	<u>\$ 1,124,866</u>
<b>Net Assets</b>		
General fund balance/net assets	\$ 5,565,339	\$ 4,721,279
Invested in capital assets - net of related debt	102,588,698	101,366,974
Total Net Assets	<u>\$ 108,154,037</u>	<u>\$ 106,088,253</u>

## Condensed Statement of Activities

<b>Revenue</b>		
Intergovernmental	\$ 17,041,904	\$ 20,868,530
Other contributions and service charges	220,674	209,030
Other	2,719,872	2,295,398
Total Revenue	<u>19,982,450</u>	<u>23,372,958</u>
<b>Expenses</b>		
Primary maintenance	4,321,611	2,786,516
Local maintenance	4,331,396	3,582,679
Depreciation	8,358,351	8,005,888
Administrative	887,872	858,626
Interest	17,436	29,060
Total Expenses	<u>17,916,666</u>	<u>15,262,769</u>
Change In Net Assets	<u>\$ 2,065,784</u>	<u>\$ 8,110,189</u>

## **KALAMAZOO COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION & ANALYSIS**

### **Comments on the Condensed Financial Statements**

The positive growth associated with the net assets reflects a continuing growing economy for the Kalamazoo County region. As the condensed financial statements reflect, the change in net assets for the year ending December 31, 2005 was \$2,065,784. This growth is not as robust as in the past since chip seal projects, a significant maintenance program, are no longer included as a capital asset. However, continuing investment in substantial and important primary road projects such as the South Sprinkle road from the village of Vicksburg to S Avenue and the South Sprinkle Road from Zylman Avenue to East Centre Avenue improvement projects as well as the development of new roads that were transferred into the public road system are reflected by the increase. Of course, the amount of expenditures for capital assets and the 8 miles of development projects transferred into the public road system are offset by the current year depreciation.

The ending General Fund balance/net assets of \$5,565,339, while up 17.8% from the 2004 balance, includes funding committed for projects included in the capital improvement plan for the next construction season, as well as an attempt to build a reserve fund balance to provide for potential increases in expenses.

### **Budget**

The KCRC's budget is prepared in accordance with state law using the modified accrual accounting basis. This is the same accounting basis used for the governmental fund.

### **Original Budget Versus Amended Budget**

The 2005 budget was adopted in December 2004. The budget is reviewed periodically, amended as information is available or management's plans change. The original budgeted revenue was only changed significantly for two revenue line items. The revenue from the Economic Development Fund and from cities was increased by a little over \$1 million to reflect the award by the State of Michigan to support Economic Development efforts, especially with the Stryker Instruments Facility relocation to South Sprinkle Road between Zylman Avenue and East Centre Avenue. Contributions from the Michigan Economic Development Fund and the City of Portage supported this important improvement project.

The expenditure categories were adjusted as necessary during the year without significant changes in any of the expenditure account classifications.

## KALAMAZOO COUNTY ROAD COMMISSION MANAGEMENT'S DISCUSSION & ANALYSIS

### Amended Budget Versus Actual

The actual revenue exceeded the expectation of the amended budget by \$200,475, or 1.1%. All except two of the revenue accounts had a favorable variance.

On the expenditure side, actual expenditures were less than budgeted by \$1,037,331, or 6.1%.

Major items associated with the favorable variance are in the budgeted preservation and maintenance expenditures. There were significant cost reductions for budgeted routine maintenance activities due to a relatively mild winter season. Cost savings of approximately \$400,000 were realized. Other significant items impacting the favorable reduction in expense were:

- A favorable equipment usage allocation of \$230,769,
- Liability insurance refund for closed periods of \$192,766,
- Favorable pricing affecting the competitive bids for projects and equipment.

### Capital Assets and Long Term Debt

The KCRC has capital assets including infrastructure (roads, bridges and signals) valued, for full accrual accounting purposes, net of accumulated depreciation of \$102,739,810, a year to year increase of 1.05% as summarized below.

	<u>2005</u>	<u>2004</u>
Land and improvements	\$ 11,654,029	\$ 9,262,386
Buildings and improvements	3,538,946	3,467,573
Road equipment	6,315,383	5,629,408
Other equipment	1,197,838	1,178,503
Infrastructure and improvements	<u>176,158,883</u>	<u>170,015,192</u>
Total Capital Assets	198,865,079	189,553,062
Accumulated Depreciation	<u>(96,125,269)</u>	<u>(87,883,864)</u>
Net Capital Assets	<u>\$ 102,739,810</u>	<u>\$ 101,669,198</u>

Additional information regarding capital assets is located in Note 3 of the financial statements.

Additional information regarding long-term debt is included in Note 4 of the financial statements.



**KALAMAZOO COUNTY ROAD COMMISSION  
MANAGEMENT'S DISCUSSION & ANALYSIS**

**Other, Including Economic Factors**

Management is not aware of any currently known facts, decisions, or conditions expected to have a significant effect on next year and beyond on the KCRC financial condition.

KALAMAZOO COUNTY ROAD COMMISSION  
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET  
DECEMBER 31, 2005

	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash	\$ 2,807,208	\$ -	\$ 2,807,208
Accounts Receivable			
State Transportation Department	2,202,579	-	2,202,579
Due on County Road Agreements	131,435	-	131,435
Other	120,496	-	120,496
Inventories			
Equipment materials and parts	74,200	-	74,200
Road materials	1,091,754	-	1,091,754
Deferred expense	(67,343)	-	(67,343)
Prepaid expense	132,450	-	132,450
Advance	68,020	-	68,020
Surplus property	2,000	-	2,000
Capital Assets			
Land and land improvements	-	11,654,029	11,654,029
Other capital assets, net of accumulated depreciation	-	91,085,781	91,085,781
Total Assets	<u>\$ 6,562,799</u>	<u>\$ 102,739,810</u>	<u>\$ 109,302,609</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 585,406	\$ -	\$ 585,406
Accrued liabilities	122,369	-	122,369
Advances	53,020	-	53,020
Deferred revenue	120,321	-	120,321
Escrow agreement	1,600	-	1,600
Kalamazoo Area Transportation Study	114,744	-	114,744
Accrued interest on installment purchase agreement	-	5,812	5,812
Long-term Liabilities			
Due within one year	-	145,300	145,300
Total Liabilities	<u>997,460</u>	<u>151,112</u>	<u>1,148,572</u>
<b>FUND BALANCE/NET ASSETS</b>			
Fund Balances:			
Reserved for inventories and prepaids	1,298,404	(1,298,404)	-
Unreserved			
Undesignated	4,266,935	(4,266,935)	-
Total Fund Balance	<u>5,565,339</u>	<u>(5,565,339)</u>	<u>-</u>
Total Liabilities and Fund Balance	<u>\$ 6,562,799</u>		
Net Assets:			
Invested in capital assets, net of related debt		102,588,698	102,588,698
Restricted for primary		3,690,635	3,690,635
Unrestricted		1,874,704	1,874,704
Total Net Assets		<u>\$ 108,154,037</u>	<u>\$ 108,154,037</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE TO  
NET ASSETS OF GOVERNMENTAL ACTIVITIES  
DECEMBER 31, 2005

Total governmental fund balance	\$ 5,565,339
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	102,739,810
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	(151,112)
Net Assets of Governmental Activities	<u>\$ 108,154,037</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF  
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED DECEMBER 31, 2005

	General Fund	Adjustments	Statement of Activities
Revenue			
Transportation fund	\$ 13,149,412	\$ -	\$ 13,149,412
Economic development fund	428,683	-	428,683
Federal grants	1,590,823	-	1,590,823
Critical bridge	22,643	-	22,643
Township and City contributions	1,850,343	-	1,850,343
Other contributions and service charges	220,674	-	220,674
Other revenues	511,397	2,208,475	2,719,872
Total Revenue	<u>17,773,975</u>	<u>2,208,475</u>	<u>19,982,450</u>
Expenditures			
Primary preservation	4,724,359	(4,724,359)	-
Primary maintenance	4,730,309	(408,698)	4,321,611
Local preservation	1,709,350	(1,709,350)	-
Local maintenance	4,740,095	(408,699)	4,331,396
Administrative	972,795	(84,923)	887,872
Net equipment expense	(262,015)	262,015	-
Net capital outlay			
Capital outlay	786,776	(786,776)	-
Depreciation	(640,302)	640,302	-
Depreciation	-	8,358,351	8,358,351
Interest	23,248	(5,812)	17,436
Total Expenditures	<u>16,784,615</u>	<u>1,132,051</u>	<u>17,916,666</u>
Excess of Revenue Over (Under) Expenditures	989,360	(989,360)	-
Other Financing Sources (Uses)			
Payments on land contracts	(145,300)	145,300	-
Total Other Financing Sources (Uses)	<u>(145,300)</u>	<u>145,300</u>	<u>-</u>
Excess of Revenue and Other Sources Over (Under) Expenditures and Other Uses	844,060	(844,060)	-
Change in Net Assets	-	2,065,784	2,065,784
Fund Balance/Net Assets - Beginning of Year	4,721,279	101,366,974	106,088,253
Fund Balance/Net Assets - End of Year	<u>\$ 5,565,339</u>	<u>\$ 102,588,698</u>	<u>\$ 108,154,037</u>

See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE OF GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2005

Net change in fund balance	\$ 844,060
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of these assets is depreciated over their estimated useful lives.

Development projects transferred in	2,208,475
Expenditures for capital assets	7,220,488
Current year depreciation	(8,358,351)

Governmental fund reports proceeds from borrowing as other financing sources and payments on borrowing as other financing uses. Long-term debt principal increases/decreases are not included in the statement of activities.

Payments on land contracts	145,300
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In the Statement of Activities, interest is accrued on outstanding debt, whereas in governmental funds, an interest expenditure is reported when due.

Interest payable on purchase agreements	5,812
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Change in Net Assets of Governmental Activities	\$ 2,065,784
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See accompanying notes to the basic financial statements.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies

Kalamazoo County Road Commission's financial statements are prepared in accordance with United States generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with GASB pronouncements. The more significant accounting policies established in GAAP and used by the commission are discussed below.

In June 1999, the GASB unanimously approved Statement No. 34, "Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments". Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the commission's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for the commission's activities, including infrastructure (roads, bridges, etc.).

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

A. Reporting Entity

The commission is governed by a three-member board of county road commissioners appointed by the Kalamazoo County Board of Commissioners. The commission is a component unit of the Kalamazoo County and its financial statements are an integral part of the comprehensive annual financial report of the Kalamazoo County.

Based upon GASB Statement 14, which establishes criteria for determining the reporting entity, these financial statements present the Kalamazoo County Road Commission, a discretely presented component unit of Kalamazoo County, and include the commission's general operations fund.

B. Basic Financial Statements – Government-Wide Statements

The statement of net assets and the statement of activities display information about the commission as a whole. The purpose of these statements is to distinguish between activities that are governmental and those that are considered business-type activities. Currently, all commission activity is considered governmental.

The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This approach is different from the manner in which the governmental fund financial statements are prepared. Therefore, a reconciliation is included to identify the relationship between the government-wide statements and the statements for the governmental fund.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements – Government-Wide Statements (continued)

The government-wide statement of activities presents a comparison between program expenses and program revenues. Revenues which are not classified as program revenues are presented as general revenues. The comparison of program expenses and revenues identifies the extent to which each program is self-financing or draws from the resources of the commission.

This government-wide approach is focused more on the sustainability of the commission as an entity and the change in the commission's net assets from the current year's activities.

C. Basic Financial Statement – Fund Financial Statements

The accounts of the commission are organized on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

The commission's operations are accounted for in one fund, the general operations fund.

Fund financial statements generally report detailed information about the governmental entity. The focus of the governmental financial statements is on major funds rather than reporting all funds by type. The commission has only one major fund and no non-major funds.



KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

C. Basic Financial Statement – Fund Financial Statements (continued)

The governmental fund is accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. According to this basis, revenues are recognized when they become measurable and available. Available is defined as being received within two months of year end. Expenditures are recognized in the period in which the fund liability is incurred, if measurable.

D. Cash and Cash Equivalents

The commission's cash and cash equivalents are considered to be demand deposits and short-term investments with a maturity date of three months or less when acquired.

E. Inventories and Prepaid Items

Inventories are valued at the average unit cost method. Inventory items are charged to road construction, maintenance, equipment repairs and operations as they are used. Certain payments to vendors reflect costs applicable to future periods and are recorded as prepaid items.

F. Capital Assets and Depreciation

Capital assets purchased or acquired are reported at historic cost. Contributed assets are reported at fair market value when received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is computed on the sum-of-the-year's-digits methods for

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

F. Capital Assets and Depreciation (continued)

road equipment and straight-line method for all other capital assets over the following estimated useful lives:

	<u>Years</u>
Buildings	25 – 50
Road equipment	5 – 8
Other equipment	4 – 20
Infrastructure	5 – 50

GASB 34 requires the commission to report and depreciate infrastructure assets in its government-wide statements. Infrastructure assets include roads, bridges, traffic signals, etc.

G. Budgets and Budgetary Accounting

Budgetary procedures require the commissioners to approve a budget for the general operations of the fund. Pursuant to this requirement, the commission follows these procedures:

- The director submits a proposed operating budget for the fiscal year to the board of county road commissioners before the beginning of the fiscal year. The budget includes proposed expenditures and the means of providing them.
- A public hearing is held to obtain comments.
- Prior to the beginning of the year, the budget and appropriations are legally adopted by the board of county road commissioners.
- Comparison of budget to actual activity is used as a management control device throughout the year.
- Budgets are prepared using the modified accrual basis of accounting.
- The budgetary information presented has been amended throughout the year by an official action of the board.

Law requires budget amendments as needed to prevent actual expenditures from exceeding those provided in the budget.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Policies (continued)

G. Budgets and Budgetary Accounting (continued)

Expenditures which exceeded appropriations are as follows:

	Amended Budget	Expenditure	Variance
Depreciation	\$ (781,400)	\$ (640,302)	\$ (141,098)

NOTE 2--Cash, Cash Equivalents and Investments

The county road commission is legally authorized to deposit and invest in the following:

1. In bonds, securities and other obligations of the United States or agency or instrumentality of the United States.
2. In certificates of deposit, saving accounts, deposit accounts, or depository receipts of a bank which is a member of the FDIC, a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation or a credit union which is insured by the National Credit Union Administration.
3. In commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and which matures not more than 270 days after the purchase date.
4. In United States government or federal agency obligation repurchase agreements.
5. In banker's acceptance of United States banks.
6. In obligations of the state or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.
7. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts be made with banks having a place of business in the State of Michigan.

At year-end, the carrying amount of the commission's deposits was \$2,807,208 and the bank balance was \$3,059,707. Of the bank balance \$200,000 was covered by federal depository insurance and \$2,859,709 was uninsured and uncollateralized.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Cash, Cash Equivalents and Investments (continued)

The commission's deposits are categorized below according to level of credit risk:

- Category 1 represents the county road commission's insured or collateralized deposits with securities held by the commission or by its agent in the commission's name.
- Category 2 represents the county road commission's collateralized deposits with securities held by the pledging financial institution's trust department or agent in the county road commission's name.
- Category 3 represents the county road commission's uncollateralized deposits including any bank balances that are collateralized with securities held by the pledging financial institution's trust department or agent but not in the county road commission's name.

	Category			Bank	Carrying
	1	2	3	Balance	Amount
Demand deposits	\$ -	\$ -	\$ 62,008	\$ 314,707	\$ 62,008
Time deposits	-	-	2,745,000	2,745,000	2,745,000
Cash on hand	-	-	200	-	200
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,807,208</u>	<u>\$ 3,059,707</u>	<u>\$ 2,807,208</u>

It is the policy of the Commission to deposit excess monies with the Kalamazoo Treasurer; investments are made at his/her discretion.

NOTE 3--Capital Assets and Depreciation

Changes in capital assets for the year are as follows:

	Balance 12-31-2004	Additions	Retirements	Balance 12-31-2005
Capital Assets Not Being Depreciated				
Land and improvements	\$ 1,198,399	\$ -	\$ -	\$ 1,198,399
Land and improvements, infrastructure	8,063,987	2,391,643	-	10,455,630
Total Land and improvements	<u>9,262,386</u>	<u>2,391,643</u>	<u>-</u>	<u>11,654,029</u>
Other Capital Assets				
Buildings and improvements	3,467,573	71,373	-	3,538,946
Road equipment	5,629,408	694,075	(8,100)	6,315,383
Other equipment	1,178,503	21,330	(1,995)	1,197,838
Infrastructure and improvements	170,015,192	6,250,542	(106,851)	176,158,883
Total Other Capital Assets	<u>180,290,676</u>	<u>7,037,320</u>	<u>(116,946)</u>	<u>187,211,050</u>
Total Capital Assets	<u>189,553,062</u>	<u>9,428,963</u>	<u>(116,946)</u>	<u>198,865,079</u>
Accumulated Depreciation				
Buildings and improvements	(1,702,485)	(82,497)	-	(1,784,982)
Road equipment	(4,406,397)	(477,815)	8,100	(4,876,112)
Other equipment	(995,380)	(79,990)	1,995	(1,073,375)
Infrastructure and improvements	(80,779,602)	(7,718,049)	106,851	(88,390,800)
Total Accumulated Depreciation	<u>(87,883,864)</u>	<u>(8,358,351)</u>	<u>116,946</u>	<u>(96,125,269)</u>
Total Net Capital Assets	<u>\$ 101,669,198</u>	<u>\$ 1,070,612</u>	<u>\$ -</u>	<u>\$ 102,739,810</u>

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Long-Term Liabilities

Following is a summary of long term liabilities for the year ended December 31, 2005:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental Activities:				
Notes Payable:				
Land contracts	\$ 290,600	\$ -	\$ 145,300	\$ 145,300
Total Long-Term Debt	<u>\$ 290,600</u>	<u>\$ -</u>	<u>\$ 145,300</u>	<u>\$ 145,300</u>

Debt service requirements as of December 31, 2005 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	145,300	11,624	156,924
Totals	<u>\$ 145,300</u>	<u>\$ 11,624</u>	<u>\$ 156,924</u>

NOTE 5--Defined Benefit Pension Plan

Plan Description

The commission's defined benefit pension plan provides retirement, disability and death benefits to plan members and beneficiaries. The commission participates in the Kalamazoo County Employees Retirement System, a Public Employee Retirement System which is an agent multiple-employer plan administered by the Kalamazoo County Employees Retirement System. The Kalamazoo County Board of Commissioners establishes and amends the benefit provisions of the participants in the plan. The Kalamazoo County Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. That report may be obtained by writing to the Kalamazoo County Employees Retirement System, 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling (269) 384-8111.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 5--Defined Benefit Pension Plan (continued)

Funding Policy

The commission is required to contribute at an actuarially determined rate; the current rate is 1.54% of annual covered payroll. Employees are currently not required to contribute to the plan. The contribution requirements are established by Kalamazoo County Employees Retirement System based on an actuarial valuation. The contribution requirements of plan members, if any, are established and may be amended by the commission depending on the plan's contribution program.

Annual Pension Cost

For the year ended December 31, 2005, the commission's annual pension cost of \$47,687 for the plan approximated the commission's required and actual contributions. The required contribution was determined as part of the December 31, 2004 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.75% and (b) projected salary increases of 4.5% to 10.8% per year compounded annually, attributable to inflation. The actuarial value of the plan assets was determined on the basis of a market value method with five years smoothing.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 5--Defined Benefit Pension Plan (continued)

Annual Pension Cost (continued)

The amortization method is level percent of payroll, closed period.

Three-Year Trend Information

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension Obligation
12-31-02	\$ -	100.00%	\$ -
12-31-03	192,645	103.10%	-
12-31-04	233,231	101.40%	-

Schedule of Funding Progress

Actuarial Valuation <u>Date</u>	Actuarial Value of Assets <u>{a}</u>	Actuarial Accrued Liability Entry Age <u>{b}</u>	Unfunded AAL (UAAL) <u>{b-a}</u>	Funded Ratio <u>{a/b}</u>	Covered Payroll <u>{c}</u>	UAAL as a % of Covered Payroll <u>{b-a}/{c}</u>
12-31-02	\$ 16,147,397	\$ 13,789,623	\$ (2,357,774)	117.1%	\$ 2,812,810	-83.8%
12-31-03	16,321,860	14,385,904	(1,935,956)	113.5%	2,887,703	-67.0%
12-31-04	17,756,629	13,864,504	(3,892,125)	128.1%	2,963,219	-131.3%

NOTE 6--Post Employment Benefits

In addition to the pension benefits described above, the Road Commission also provides post employment health benefits to all retirees who are eligible for pension benefits. Coverage is required for union retirees based on the contract and at the discretion of management for non-union retirees. The Road Commission bears the cost of the health insurance premium for the eligible retiree; the retiree is responsible for the cost of the health insurance premium for any added spouse or dependent. Expenditures for post employment health care premiums are recognized as premiums are paid. For the year ended December 31, 2005, there were 49 retirees who received this benefit and the cost of providing retiree health care insurance premiums was \$326,734.

KALAMAZOO COUNTY ROAD COMMISSION  
NOTES TO FINANCIAL STATEMENTS

NOTE 7--Risk Management

The commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

During 2005, the commission participated in the Michigan County Road Commission Self Insurance Pool (SIP), a public entity risk pool currently operating as a common risk management program for road commissions in the State of Michigan. The commission pays an annual premium to SIP for its general insurance coverage. The SIP is self-sustaining through member premiums.

Also during 2005, the commission participated in the County Road Association Self Insurance Fund (SIF) for its workers compensation benefits. The SIF is also a common risk management program for road commissions in the State of Michigan and is self-sustaining through member premiums.

In the event of unusually high claims, both the SIP and the SIF have the authority to bill the member road commissions retroactively. The commission continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.



REQUIRED SUPPLEMENTAL INFORMATION

KALAMAZOO COUNTY ROAD COMMISSION  
BUDGETARY COMPARISON SCHEDULE  
GENERAL OPERATIONS FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Original Budget	Final Budget	Actual	Actual Vs. Final Budget Favorable (Unfavorable)
Revenue				
Michigan Transportation Fund	\$ 13,300,000	\$ 13,150,000	\$ 13,149,412	\$ (588)
Economic Development Fund	-	325,000	428,683	103,683
Township and City contributions	900,000	900,000	1,034,669	134,669
Federal	2,055,360	1,588,500	1,590,823	2,323
Critical Bridge	-	-	22,643	22,643
Cities	60,000	750,000	815,674	65,674
Interest	20,000	110,000	126,444	16,444
Other	750,000	750,000	605,627	(144,373)
Total Revenue	<u>17,085,360</u>	<u>17,573,500</u>	<u>17,773,975</u>	<u>200,475</u>
Expenditures				
Preservation and maintenance	16,316,321	16,591,321	15,904,113	687,208
Administration	1,081,825	1,041,825	972,795	69,030
Capital Outlay	1,385,500	1,115,500	932,078	183,422
Equipment	(281,400)	-	(238,769)	238,769
Depreciation	(600,000)	(781,400)	(640,302)	(141,098)
Total Expenditures	<u>17,902,246</u>	<u>17,967,246</u>	<u>16,929,915</u>	<u>1,037,331</u>
Excess of Revenues Over (Under) Expenditures	(816,886)	(393,746)	844,060	1,237,806
Fund Balance, Beginning of Year	4,721,279	4,721,279	4,721,279	-
Fund Balance, End of Year	<u>\$ 3,904,393</u>	<u>\$ 4,327,533</u>	<u>\$ 5,565,339</u>	<u>\$ 1,237,806</u>

ADDITIONAL SUPPLEMENTAL INFORMATION

KALAMAZOO COUNTY ROAD COMMISSION  
ANALYSIS OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCE -- SPECIAL REVENUE FUND  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Primary Roads	Local Roads	County Road Funds	Total
<b>Revenues</b>				
Transportation Fund				
Engineering	\$ 7,560	\$ 2,440	\$ -	\$ 10,000
Snow removal	3,346	-	-	3,346
Urban road	1,900,712	553,896	-	2,454,608
Allocation	8,074,654	2,606,804	-	10,681,458
Total Transportation Fund	<u>9,986,272</u>	<u>3,163,140</u>	<u>-</u>	<u>13,149,412</u>
Economic Development Fund	428,683	-	-	428,683
Federal	1,590,823	-	-	1,590,823
Critical Bridge	22,643	-	-	22,643
Township & City contributions	816,221	1,034,122	-	1,850,343
Other contributions and charges for services	53,524	165,158	1,992	220,674
Total County	<u>12,898,166</u>	<u>4,362,420</u>	<u>1,992</u>	<u>17,262,578</u>
Other				
Gain on disposal	-	-	140,524	140,524
Special assessments	-	114,685	-	114,685
Interest earned	69,061	7,300	56,418	132,779
Miscellaneous	-	123,409	-	123,409
Total Other	<u>69,061</u>	<u>245,394</u>	<u>196,942</u>	<u>511,397</u>
Total Revenues	<u>12,967,227</u>	<u>4,607,814</u>	<u>198,934</u>	<u>17,773,975</u>
<b>Expenditures</b>				
Preservation - structural improvements	4,724,359	1,709,350	-	6,433,709
Maintenance	4,730,309	4,740,095	-	9,470,404
Total Preservation and Maintenance	<u>9,454,668</u>	<u>6,449,445</u>	<u>-</u>	<u>15,904,113</u>
Other				
Administrative expense	578,307	394,488	-	972,795
Net equipment expense	(113,872)	(141,960)	(6,184)	(262,016)
Net capital outlay	-	-	291,775	291,775
Interest	-	-	23,248	23,248
Total Other	<u>464,435</u>	<u>252,528</u>	<u>308,839</u>	<u>1,025,802</u>
Total Expenditures	<u>9,919,103</u>	<u>6,701,973</u>	<u>308,839</u>	<u>16,929,915</u>
<b>Excess of Revenues Over (Under) Expenditures</b>	<u>3,048,124</u>	<u>(2,094,159)</u>	<u>(109,905)</u>	<u>844,060</u>
Other Financing Sources (Uses)				
Optional transfers	(2,094,159)	2,094,159	-	-
Payments on land contracts	-	-	-	-
Total Other Financing Sources (Uses)	<u>(2,094,159)</u>	<u>2,094,159</u>	<u>-</u>	<u>-</u>
<b>Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses</b>	<u>953,965</u>	<u>-</u>	<u>(109,905)</u>	<u>844,060</u>
Fund Balances, Beginning	2,736,670	-	1,984,609	4,721,279
<b>Fund Balances, Ending</b>	<u>\$ 3,690,635</u>	<u>\$ -</u>	<u>\$ 1,874,704</u>	<u>\$ 5,565,339</u>

KALAMAZOO COUNTY ROAD COMMISSION  
SCHEDULE OF FEDERAL FINANCIAL AWARDS  
FOR THE YEAR ENDED DECEMBER 31, 2005

	Federal CFDA Number	Passed Through Grantor ID	Cash Accrued or (Deferred) Revenue January 1, 2005	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash Accrued or (Deferred) Revenue December 31, 2005
U.S. Department of Transportation Highway Research, Planning and Construction Passed through State of Michigan Department of Transportation	20.205					
D Avenue Bridge Over Kalamazoo River		56553A	\$ -	\$ 120,765	\$ 120,765	\$ -
G Avenue From 35th Street to 37th Street		78056A	-	28,136	28,136	-
Portage Road Bridge Over Barton-Howard Lake Channel		76306A	-	239,000	239,000	-
42nd Street From South of TS Avenue to 43rd Street		76271A	-	97,903	97,903	-
South Sprinkle Road at ML Avenue		77345A	-	113,000	113,000	-
South Sprinkle Road From V Avenue to South of S Avenue		77346A	-	622,121	622,121	-
South Sprinkle Road at Comstock/Lake		78236A	-	369,898	369,898	-
Total Federal Assistance			<u>\$ -</u>	<u>\$ 1,590,823</u>	<u>\$ 1,590,823</u>	<u>\$ -</u>

Note: Federal financial awards received under the highway planning and construction program in the amount of \$1,590,823 are administered by the State of Michigan. The Road Commission has no responsibilities regarding fiscal or compliance controls over such assistance.



**Gardner | Provenzano  
Schauman & Thomas**

**CERTIFIED PUBLIC ACCOUNTANTS**

Frederick C. Gardner  
Giacamo Provenzano  
James R. Schauman  
Heather A. Thomas

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

March 3, 2006

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
Kalamazoo, Michigan

We have audited the financial statements of Kalamazoo County Road Commission, a component unit of Kalamazoo County, as of and for the year ended December 31, 2005, and have issued our report thereon dated March 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

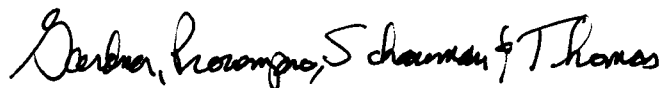
In planning and performing our audit, we considered Kalamazoo County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements, caused by error or fraud, in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Members of the Board  
of County Road Commissioners  
of Kalamazoo County  
Page Two  
March 3, 2006

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kalamazoo County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended for the information of management and the Board of County Road Commissioners. However, this report is a matter of public record and its distribution is not limited.



Gardner, Provenzano, Schauman & Thomas, P.C.